Submitted by Alan Jones, TMM, Precinct 14 10/22/2023

FINANCIAL IMPACT OF THE MBTA COMMUNITIES OVERLAY DISTRICTS

This report was written by Charlie Foskett (Precinct 10), Topher Heigham (Precinct 15) and Alan Jones (Precinct 14), all members of Arlington's Finance Committee, but this is NOT a report from the Finance Committee. On October 5, 2023, the Finance Committee voted 10-5 to take no position on the Redevelopment Board's recommended vote.

Many Town Meeting members have asked for an analysis of the financial impact of the proposed zoning changes to comply with the MBTA Communities Districts requirements. Because of the many variables, such as the type of new or replacement housing, the demographics of additional residents, and the amount and timing of new construction, there is no exact answer. However, we have attempted to provide some basic concepts for consideration. We have assumed that new housing would be relatively high density, which is the purpose of the law.

HOW MUCH DOES IT COST TO PROVIDE SERVICES TO RESIDENTS?

The most straightforward calculation is to divide the total budgeted expenses by the current population, not including local aid and local receipts (state aid and user fees).

FY 2024 total expense (Fincom report, FY 24, App D)	$207,109,610
Less external aid and local receipts (*ibid*)	($37,981,129)
Net local expenses	$169,128,481
Current population (US Census, 2021)	46,045
Per capita expense	$3,673

HOW MUCH ARE RESIDENTS PAYING IN PROPERTY TAXES?

Almost all of the net expenses are paid through revenue from property taxes, broadly based on area of land, buildings and accessories. Services are delivered to people, so expenses are easily expressed on a per-capita basis. However, per-capita property taxes are assessed, on average, at different rates for different classes of residential properties.

Assuming a current population of 46,045 (US Census, 2021) living in 20,461 residential units (MBTA-C compliance model), we have an average density of 2.25 residents per unit.

The following tables show the mean assessed values for different types of residential units and the average per-capita tax burden, based on an average density of 2.25 residents per unit. The data are from the Assessor's and state databases.

Parcel Type	DOR Use Code	Mean Parcel Valuation	Average Tax Revenue Per Parcel	Mean Household Valuation *	Average Tax Revenue Per Capita **
Single Family	101	$912,386	$10,228	$912,386	$4,546
Condo	102	$534,165	$5,988	$534,165	$2,661
Two Family	104	$971,350	$10,889	$485,675	$2,420
Three Family	105	$1,048,488	$11,754	$349,496	$1,741
Mixed Use	013 031	$1,697,804	$19,032	$273,496	$1,363
Four to Eight Units	111	$1,148,639	$12,876	$248,558	$1,238
More than Eight Units	112	$7,876,099	$88,291	$226,267	$1,127
Affordable Housing Units	114	$316,762	$3,551	$76,460	$381

* Mean Household Valuation = total of valuations in this code / number of units

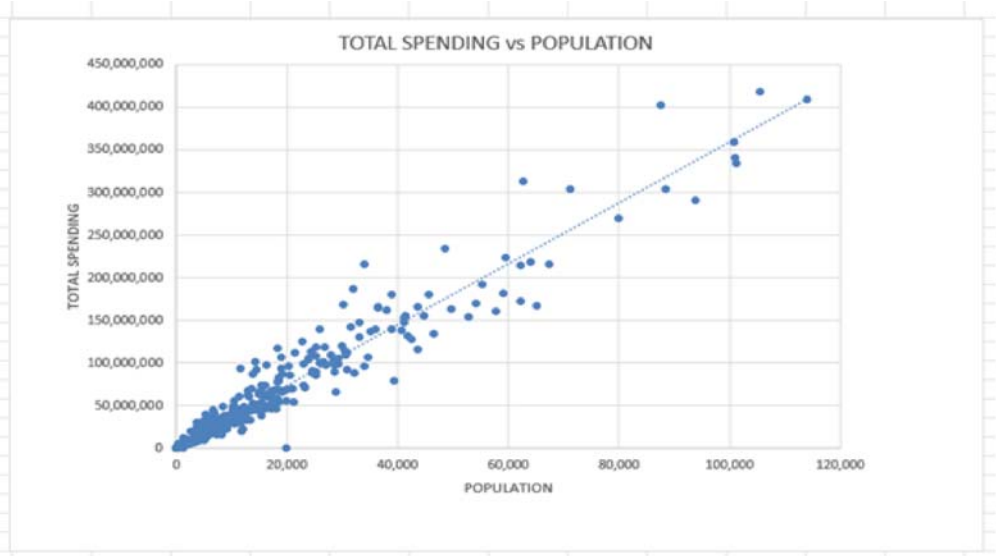
** Average Tax Revenue Per Capita = (Mean Household Valuation * tax rate) / 2.25 residents per unit

The broad conclusion is that individuals in higher-density parcels have a lower property tax burden. This reflects the reality that the cost of town services is largely dependent on population (see the chart below) while the revenue from property taxes is largely based on the size of the residential unit. An example of this is the new property at 882-892 Mass Ave, at the corner of Mass Ave and Lockeland Ave, near the high school. This new building has 22 small units and a total assessed value of $2,799,400 (Assessor's database). At the current tax rate of $11.21 per $1000 of assessed value, the tax bill for the building is $31,381. Assuming a minimum of 22 residents, the per-capita tax burden is $1,426, far lower than the per-capita expense.

HOW MUCH DO EXPENSES GROW WITH POPULATION GROWTH?

While town expenses have both fixed and variable components, the largest town expenses are related to population. The bulk of the town's budget funds education, fire, police, libraries, human services, health care, pensions, and trash collection, which are logically proportional to the population. The expenses which are not, such as snow removal, are a relatively small part of the budget. Calculating the exact relationship between expenses and population is virtually impossible. However, our rough calculation, based on many reasonable assumptions, has shown an elasticity (proportionality to the population) of 42% - a 10% increase in population would produce a 4.2% increase in expenses, which we believe is conservative. If you would like to see the data behind this estimate, ask one of us for the spreadsheets.

Comparing the budgets of municipalities across Massachusetts with their population shows a strong linear relationship across a wide range of populations. (Source: MA DLS Municipal Databank). The average per-capita budget is $3,665 - very close to Arlington's $3,673.



HOW MUCH WILL THE PROPOSED OVERLAY DISTRICTS INCREASE OUR "STRUCTURAL DEFICIT"?

We are confident that the additional expense from increased population in higher-density units will exceed the new revenue from new construction and major renovations or additions. However, calculating the exact financial impact is impossible, because we can't predict the actual growth, the actual density, the precise elasticity or the timing.

Nevertheless, based on our calculation of 42% elasticity – which we believe is realistic and conservative – and the population growth estimated in the Redevelopment Board's recommended vote, we can calculate a rough estimate. Based on an increase of 50-200 new units with an average density of 2.25 residents per unit, the population increase would be 112-450, a maximum population increase of about 1%. With all of these assumptions, the calculated annual increase in expenses based on the FY24 budget would be .01 X .42 X $207,109,610 = $869,860. Based on an average mix of 34% three family, 33% 4-8 unit multifamily and 33% over 8-unit multi-family, an expected tax revenue increase would be $1,516 per capita, providing a deficit of $186,800.

Generally, an increase in density will produce more expense than revenue, thus higher deficits.